



**CITY OF LODI
COUNCIL COMMUNICATION**

AGENDA TITLE: Authorize the City Manager to execute a termination of the 2003 Swap Agreements at the time market conditions are deemed most favorable

MEETING DATE: December 6, 2006

PREPARED BY: City Manager

RECOMMENDED ACTION: Authorize the City Manager to execute a termination of the 2003 Swap Agreements at the time market conditions are deemed most favorable.

BACKGROUND INFORMATION: In 2003, the City entered into two swap agreements with Citigroup for the City's 2002 Electric System Revenue Series "C" \$21,225,000 and Revenue Series "D" \$22,740,000 Certificates of Participation.

The swaps are briefly described as follows:

- A) Effective April 17, 2003, The City of Lodi entered into a \$42,000,000 Fixed-to-Floating swap with Citigroup Financial Products Inc. The City pays BMA plus 100 basis points in return for a fixed receipt of 4% starting July 15, 2003 with payments semi-annually thereafter until the termination date of January 15, 2009.
- B) Effective July 15, 2003, The City of Lodi entered into a \$42,000,000 Basis swap with Citigroup Financial Products Inc. The City pays BMA in return for a 74.25% 1-Month LIBOR starting January 15, 2004 with payments semi-annually thereafter until the termination date of September 29, 2014.

The City needs to terminate the swaps to manage risk exposure. On June 6, 2006 the City of Lodi was downgraded by Fitch to a BBB minus that had an impact on the existing interest rate swap agreements. The decline in the City's rating triggered a collateral posting requirement of \$450,000. If the City declines an additional credit notch (to unrated), termination of the swaps is required that could cause a financial penalty to the City contingent on market conditions. Staff is proposing an early termination of the swap agreement when market conditions indicate a neutral or positive (cash) result to the City.

Staff has used the services of Lamont Financial Services to evaluate and analyze the City's exposure with regard to the swaps. Lamont's cost for this service is approximately \$2,500. Citigroup will charge a transaction fee to terminate the swaps. The fee is subject to negotiation. Staff proposes to use Lamont Financial to negotiate and recommend the fee on the City's behalf. In addition to fixed cost of approximately \$2,500, Lamont will charge a fee contingent upon the City making a profit upon the transaction. If conditions are favorable, the City may see a net "profit" ranging from \$10,000 to \$80,000.

APPROVED: _____

Blair King, City Manager

The risk of terminating the swap is interest rate variability. However, if the swaps are "called", the exposure to the City is a lump sum payment due immediately. Interest rate variability can be managed over time. The lump sum payment poses a significant risk.

The City has a third Interest Rate Swap (a \$46.8 million step-up coupon swap) that is not recommended for termination. This swap is not subject to the collateral posting requirement of the other two swaps and the current interest rate results in a considerable negative market value to the City in the range of \$5 million.

FISCAL IMPACT: If the City's Electric Utility rating declines, the 2003 bond swaps must be terminated requiring a lump sum payment. Alternatively, the swaps could be terminated when market conditions could produce a "profit". The City would then need to manage interest rate variability on outstanding principle and interest over time.



Blair King, City Manager

RESOLUTION NO. 2006-219

A RESOLUTION OF THE LODI CITY
COUNCIL APPROVING THE TERMINATION
OF INTEREST RATE SWAP TRANSACTIONS
WITH CITIGROUP FINANCIAL PRODUCTS

WHEREAS, the City of Lodi and Citigroup Financial Products Inc. (formerly known as Salomon Brothers Holding Company, Inc.) are parties to a Master Agreement and a Credit Support Annex, which constitute the terms of a Transaction known as Transaction Reference: N16474 (33090) and another transaction known as Transaction Reference: N22221 by which both parties shall transact an exchange of interest payments; and

WHEREAS, both parties desire to terminate their obligations under both of these transactions as specified in the Termination Agreement (attachment A).

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of Lodi does hereby authorize the City Manager or Deputy City Manager to execute the Termination Agreement on its behalf at a time and under circumstances which will result in a net cost not to exceed \$0.

Dated: December 6, 2006

I hereby certify that Resolution No. 2006-219 was passed and adopted by the City Council of the City of Lodi in a regular meeting held December 6, 2006, by the following vote:

AYES: COUNCIL MEMBERS – Beckman, Hansen, Johnson, Mounce,
and Mayor Hitchcock

NOES: COUNCIL MEMBERS – None

ABSENT: COUNCIL MEMBERS – None

ABSTAIN: COUNCIL MEMBERS – None



RANDI JOHL
City Clerk

EXHIBIT A

TERMINATION AGREEMENT

Termination Agreement (this "Termination Agreement") dated as of December __, 2006 by and between CITIGROUP FINANCIAL PRODUCTS INC. (formerly known as Salomon Brothers Holding Company Inc) ("Party A") and CITY OF LODI ("Party B").

WHEREAS, Party A and Party B are parties to a Master Agreement dated as of September 29, 1999 (the "Master Agreement"), a Schedule to the Master Agreement (the "Schedule") and a Credit Support Annex (the "Credit Support Annex" and, collectively with the Master Agreement and Schedule, the "Agreement");

WHEREAS, in accordance with the terms of the Agreement, Party A and Party B have heretofore entered into (i) on September 29, 1999, pursuant to the Agreement, a Transaction (Ref: N16474 and 33090), which Transaction was subsequently amended on February 23, 2001 and April 16, 2003 (as so amended, the "1999 Transaction") and (ii) on February 23, 2001, pursuant to the Agreement, a Transaction (Ref: N22221) (the "2001 Transaction" and, together with the 1999 Transaction, the "Transactions");

WHEREAS, the parties wish to terminate their obligations under the Transactions;

NOW, THEREFORE, in consideration of the foregoing and other valuable consideration, it is hereby agreed as follows:

1. Payment and Termination.

(a) The Transactions are hereby terminated as of December __, 2006 (the "Termination Date") and neither Party A nor Party B shall have any obligations thereunder following the Termination Date. In full consideration of this Termination Agreement and in complete satisfaction of all obligations of all of the parties in respect of the termination of the Transactions, Party [A/B] agrees to pay to Party [A/B] the amount of \$_____ (the "Termination Payment") (which amount is comprised of \$_____ with respect to the 1999 Transaction and \$_____ with respect to the 2001 Transaction and which, in each case, includes amounts accrued and unpaid as of the Termination Date) on the Termination Date.

(b) The Termination Payment shall be paid by Party [A/B] to Party [A/B] in immediately available funds on the Termination Date to the following account:

City of Lodi, Farmers and Merchants Bank Account # 10001301

2. Representations. Each party hereto represents to each other party hereto that:

(a) it is duly organized and validly existing under the laws of the jurisdiction of its organization or incorporation;

(b) it has the power and authority to execute and deliver this Termination Agreement;

(c) the person executing this Termination Agreement on its behalf is duly authorized to do so;

(d) its execution, delivery and performance of this Termination Agreement do not violate or conflict with any law applicable to it, any provision of its constitutional documents, any order or judgment of any court or other agency of government applicable to it or any of its assets or any contractual restriction binding on or affecting it or any of its assets;

(e) it has obtained all governmental and other consents, if any, that it is required to obtain in connection with its execution and delivery of this Termination Agreement, all such consents are in full force and effect and all conditions of any such consents have been complied with;

(f) its obligations under this Termination Agreement constitute its legal, valid and binding obligations, enforceable in accordance with their respective terms (subject to applicable bankruptcy, reorganization, insolvency, moratorium or similar laws affecting creditors' rights generally and subject, as to enforceability, to equitable principles of general application, regardless of whether enforcement is sought in a proceeding in equity or in law); and

(g) it has made its own independent decision to enter into this Termination Agreement based upon its own judgment and upon advice from such advisors as it has deemed necessary and no other party is acting as a fiduciary for or as an advisor to it in respect of this Termination Agreement.

3. Governing Law. This Termination Agreement will be governed by and construed in accordance with the laws of the State of New York, without reference to choice of law doctrine.

4. Counterparts. This Termination Agreement may be executed in counterparts, each of which shall be deemed an original.

IN WITNESS WHEREOF, the parties have executed this Termination Agreement as of the date first above written.

CITIGROUP FINANCIAL PRODUCTS INC.

By: _____

CITY OF LODI

By: _____